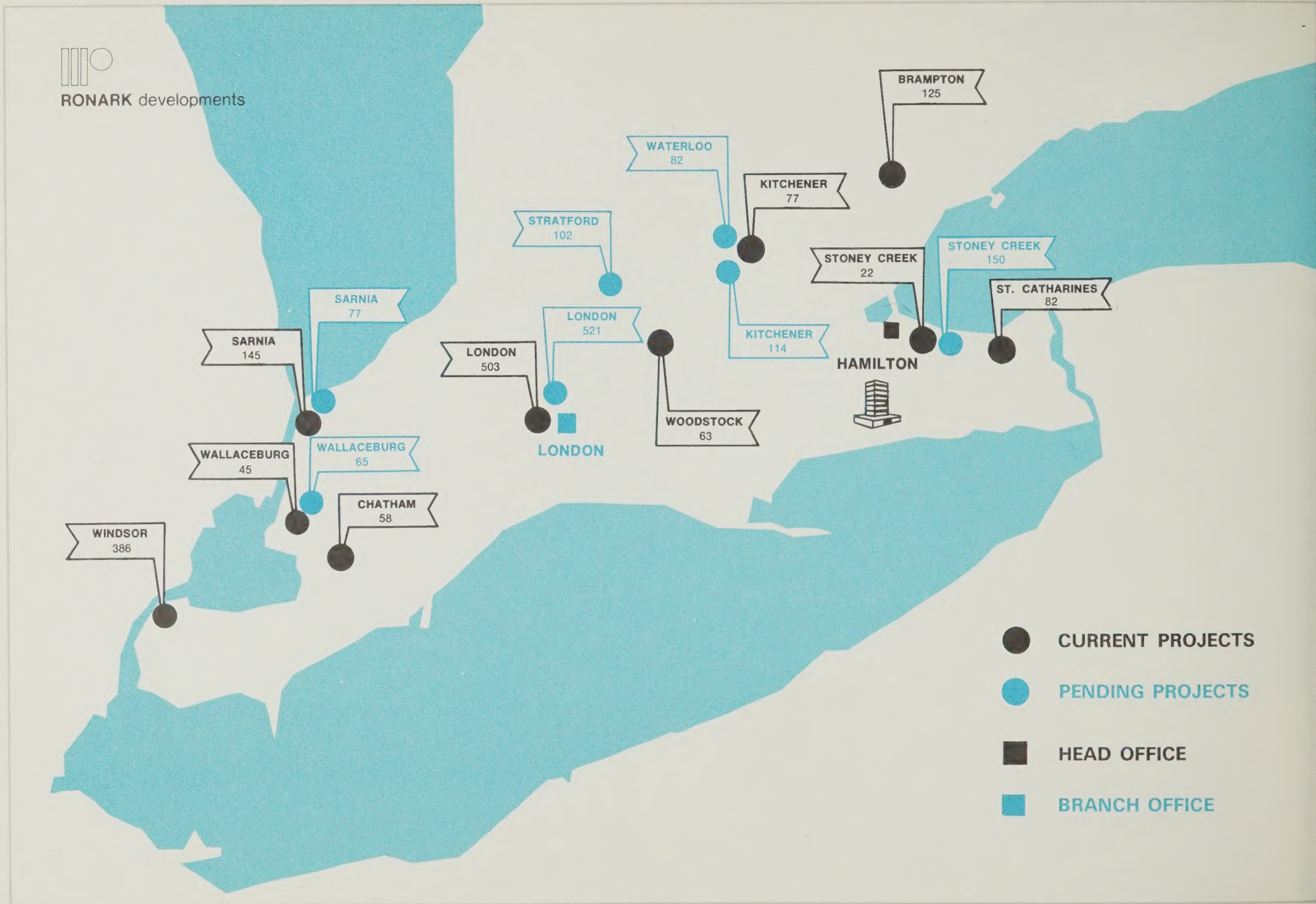
RONYX
corporation limited

Fab

1974 Annual Report

FLEET industries

RONARK developments



RONARK developments
BRAMPTON 125
WATERLOO 82
KITCHENER 77
STRATFORD 102
STONEY CREEK 22
STONEY CREEK 150
ST. CATHARINES 82
SARNIA 77
LONDON 521
KITCHENER 114
SARNIA 145
LONDON 503
HAMILTON
WOODSTOCK 63
WALLACEBURG 45
WALLACEBURG 65
LONDON
CHATHAM 58
WINDSOR 386
CURRENT PROJECTS
PENDING PROJECTS
HEAD OFFICE
BRANCH OFFICE

RONYX corporation limited

DIRECTORS

Ronald K. Fraser	President Ronyx Corporation Limited
Samuel Lax	President Lax Iron & Steel Ltd., Hamilton
C. Norman Lucas	President and Chief Executive Officer Dynamic Industries Inc., Quebec
Donald G. MacDonald	Vice President and General Manager Ronark Developments, Hamilton
D. Donald C. McGeachy	Director and Consultant London
G. Philip Morphy	Corporate Vice President Ronyx Corporation Limited
J. Frederick Taylor	President J. F. Taylor & Associates Ltd., Ottawa

AUDITORS

Clarkson, Gordon and Company,
Hamilton, Ontario

BANKERS

The Toronto-Dominion Bank

TRANSFER AGENTS

Guaranty Trust Company
of Canada,
Toronto, Ontario
Vancouver, British Columbia

OFFICERS

RONYX corporation limited

Ronald K. Fraser	President
G. Philip Morphy	Corporate Vice President
E. Delbert Hickey	Vice President Legal
Jean E. Spacca	Secretary

FLEET industries **Manufacturing Division**

Gordon B. Sampson	Vice President and General Manager
Leonard Maloney	Director of Manufacturing
Alexander J. Cook	Director of Marketing
Roy Dear	Treasurer and Controller

RONARK developments **Real Estate Division**

Donald G. MacDonald	Vice President and General Manager
Donald G. Ness	Senior Vice-President
Frank T. Wilkinson	Vice President Land Development and Sales
Clifford J. Bryson	Construction Manager
William C. Hesler	Treasurer and Controller

HEAD OFFICE 20 Hughson Street South, Hamilton, Ontario

MAILING ADDRESS P.O. Box 800, Hamilton, Ontario L8N 3M8

RONYX corporation limited

FINANCIAL HIGHLIGHTS

	Year ended September 30, 1974			Year ended September 30, 1973		
	(in thousands of dollars except for per share information)					
	Manufacturing	Real Estate	Total	Manufacturing	Real Estate	Total
SALES	$ 13,864	$ 9,192	$ 23,056	$ 8,403	$ 6,537	$ 14,940
NET EARNINGS BEFORE REFLECTING AFFILIATED COMPANIES	$ 250	$ 236	$ 486	$ 71	$ 26	$ 97
NET EARNINGS	$ 184	$ 252	$ 436	$ 46	$ 179	$ 225
ORDER BACKLOG	$ 19,500	$ 26,255	$ 45,755	$ 21,600	$ 25,000	$ 46,600
EARNINGS PER COMMON SHARE (after deducting dividend requirements on preference shares in 1973)			$ .17			$ .09
WORKING CAPITAL			$ 4,016			$ 4,232
NEW FACILITIES AND EQUIPMENT			$ 266			$ 239
LONG TERM DEBT			$ 2,629			$ 3,140
SHAREHOLDERS' EQUITY AT YEAR END			$ 4,744			$ 4,308
COMMON SHARES OUTSTANDING AT YEAR END			2,521,000			2,521,000
COMMON SHAREHOLDERS' EQUITY PER SHARE			$ 1.88			$ 1.71

PRESIDENT'S LETTER

TO THE SHAREHOLDERS:

Consolidated sales for the year amounted to $23.1 million compared to $14.9 million for the preceding year. Net earnings were $436,000 compared with $225,000 last year.

FLEET INDUSTRIES, Manufacturing Division

Sales increased by $5.5 million and average employment was up from 458 to 681. The net profit was $250,000 compared to $71,000 last year before reflecting the results of the affiliated companies. Included in expenses for the year are amortization charges of Lockheed L1011 and Boeing 707 preproduction costs of $816,000. These are treated as deferred charges in the accounts and are being amortized as units are shipped. In the case of the Lockheed program, the amortization rate in 1973 was based on the original projection of 352 aircraft. However, orders for these aircraft have not developed as quickly as anticipated and the amortization rates have been revised so that preproduction costs will be fully amortized on shipment of 201 units. This acceleration of amortizing deferred charges resulted in a charge against income before taxes for 1974 of $205,000 for units shipped in prior years.

The order backlog at the year end was $19.5 million with future options not yet booked, valued at $19.4 million. The most significant unknown factor for the coming year is the de Havilland DHC7 STOL aircraft. Fleet has now completed the preproduction tooling and a major part of the bonded components for the prototype DHC7. This program is financed to the extent of 80% by the Federal Government and 20% by the participants. As a matter of prudent policy, Fleet's expenditures of $100,000, which are to be recovered from the first 100 production aircraft, have been written off against earnings. The Federal Government, now the owner of de Havilland, is expected to make a production decision in the near future. The Air Transit experimental STOL service between Ottawa and Montreal has been an outstanding success, which is encouraging.

Other major aircraft programs such as the Lockheed L1011 and the Boeing 707 will be on reduced schedules in 1975, the exceptions being the McDonnell Douglas DC9 and the de Havilland DHC5 Buffalo and DHC6 Twin Otter. No new orders are anticipated for the Bell Air Cushion Vehicle but follow-on orders from Lockheed Electronics for cabinets and reflectors for the U.S. Navy fire control system are expected. Throughout the year, Fleet met production schedules in spite of ever increasing procurement problems while maintaining high quality standards. Our efforts to obtain additional contracts will be assisted by the recognition of our performance, particularly by the prime aircraft manufacturers, Boeing, Lockheed and McDonnell Douglas.

Future results at Fleet will be handicapped by decreased activity and by continuing shortages and price escalations. Our labour contracts, which expired September 30, 1974, have been negotiated for a further two years generally in line with comparable industrial settlements but it should be noted that the cost of living clause has resulted in hourly increments greatly in excess of our estimates with no signs of any relief.

RONARK DEVELOPMENTS, Real Estate Division

On sales of $9,192,000, the profit was $252,000 compared to $6.5 million and $179,000 for the previous year. This improvement, while less than anticipated, was accomplished in spite of an increase

in construction costs in excess of the overall inflation rates, record high interest rates, the uncertainty created by new Ontario Government land taxation policies and the delay in a new Federal Budget.

At the year end, Ronark had 755 housing units under construction which included 228 condominium townhouses in London and Kitchener, a contract for 53 townhouses in London, 166 single family homes in Wallaceburg, Woodstock and Chatham, 217 senior citizen apartments in London and a 91 unit senior citizen apartment building in Sarnia. Only 10 completed units were unsold.

The value of uncompleted projects under way as of October 1, 1974 and work to be started in the year amounts to approximately $26 million. The distribution by types expressed as a percentage of sales is

Contract housing	28%
Condominium	55%
Single family	17%

Most of the condominium and single family projects, with a sales value of $18 million approximately, are designed for low and middle income groups and thus they qualify for various assistance programs which provide, among other advantages, mortgage loans at more favourable interest rates.

During the year, our base for future growth was improved. In London, Ronleigh Properties Limited, a 50% joint venture, submitted a draft plan on 135 acres providing for 1,145 low rise housing units of various types. In Brampton, on Calvert-Dale Estates Limited property, another 50% joint venture, a draft plan has been submitted to the Minister of Planning. The first phase, comprising 224 townhouse units on 15.7 acres, should start in the late spring of 1975. A joint venture with Ellis-Don Limited in London, involving luxury high rise apartments, has been deferred for the time being.

Arkton Corporation Limited, jointly owned by Ronyx and Sifton Properties Limited, is developing 23 acres of land on Lake Worth in North Palm Beach, Florida. There are 54 units under construction with 17 sales to date. The season is just opening and sales in the area are slow. However, "Twelve Oaks" is a low rise concept on a site with many original trees and natural features fronting on Lake Worth with excellent prospects for a marina permit. General acceptance by the public is enthusiastic but, with the present conditions in the U.S. real estate market, it is not possible to predict whether the original three year time table for the total project comprising 351 units is realistic.

SANDTRON ELECTRONIC INDUSTRIES LIMITED, Affiliate

This Company, which in the past placed greater emphasis on custom engineering service, has redirected its efforts to producing a modular family of digital process controllers and a new line of photoelectric logic modules. This will permit better and more efficient adaptation of the products for specific industrial needs. At the same time, manufacturing processes have been revised and production techniques improved in anticipation of increased sales.

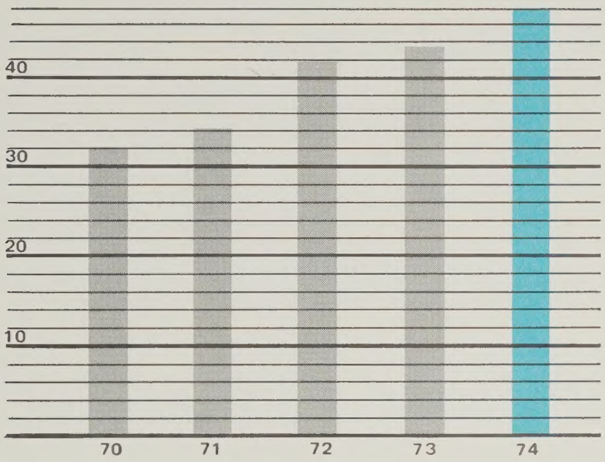
An independent market survey has been undertaken to evaluate the potential of Sandtron's products in the U.S. market and the initial findings appear favourable. A satisfactory market in the U.S.A., coupled with increased potential in Canada through additional distributors, should provide a sales base for a viable operation.

Generally speaking, in all divisions, a conservative approach has been taken, thus permitting management to adapt to rapidly changing conditions in this time of declared recession. There has not been a period in our recent history as difficult in terms of maintaining sales and satisfactory profit margins. All of our employees deserve special thanks for their conscientious attitude and sustained effort.

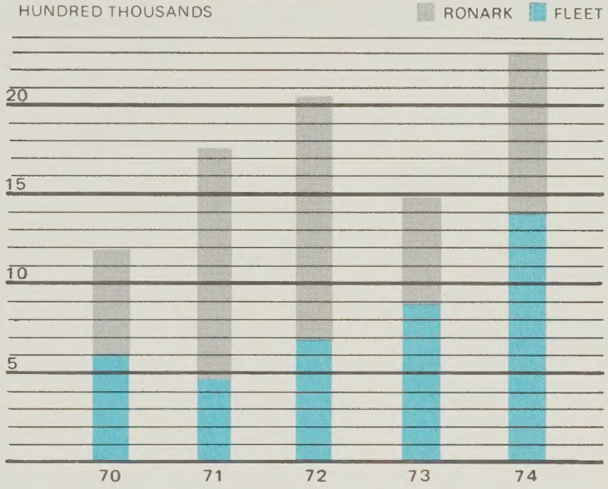
R. K. FRASER,
President.

November 26, 1974

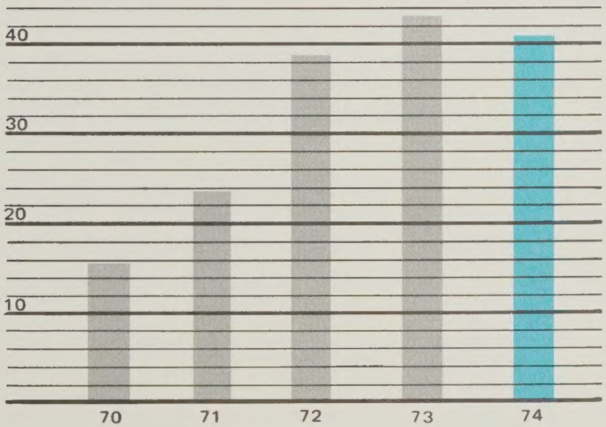
SHAREHOLDERS' EQUITY
HUNDRED THOUSANDS



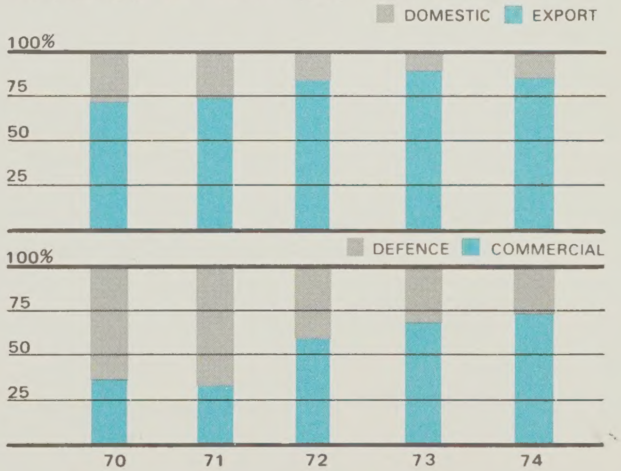
SALES MANUFACTURING & REAL ESTATE
HUNDRED THOUSANDS



WORKING CAPITAL
HUNDRED THOUSANDS



ANALYSIS OF MANUFACTURING SALES



RONYX corporation limited

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET .... SEPTEMBER 30, 1974

(with comparative figures at September 30, 1973) (in thousands of dollars)

ASSETS

	1974	1973
CURRENT:		
Cash and short term deposits	$ 251	$ 453
Accounts receivable	3,716	2,575
Due from affiliated companies	370	59
Inventories (note 2)	8,074	5,721
Mortgage receivable	113	
Prepaid expenses and other current assets	128	194
Total current assets	12,652	9,002
INVESTMENT IN AFFILIATED COMPANIES, on the equity basis	1,687	1,052
MORTGAGE RECEIVABLE, due December 6, 1974		113
FIXED (note 3):		
Land, buildings, machinery and equipment, at cost	4,330	4,129
Less accumulated depreciation	2,828	2,668
	1,502	1,461
DEFERRED CHARGES, less amortization (note 1(c))	618	917
	$ 16,459	$ 12,545

On behalf of the Board:

RONALD K. FRASER, Director

G. PHILIP MORPHY, Director

LIABILITIES

	1974	1973
CURRENT:		
Bank indebtedness (note 4)	$ 2,847	$ 728
Accounts payable and accrued charges	3,016	2,063
Income and other taxes payable	234	31
Mortgages payable on land and housing units under construction (note 5)	1,369	1,092
Demand notes—payable to affiliated company	120	320
Current instalments on long term debt (note 6)	553	276
Deferred income taxes relating to current assets	497	260
Total current liabilities	8,636	4,770
LONG TERM DEBT (note 6)	2,629	3,140
DEFERRED INCOME ON LAND SALE to affiliated company	181	
DEFERRED INCOME TAXES	269	327
SHAREHOLDERS' EQUITY:		
Capital stock—		
Common shares without nominal or par value:		
Authorized—5,600,000 shares		
Issued —2,521,000 shares	2,240	2,240
Retained earnings	2,504	2,068
	4,744	4,308
	$ 16,459	$ 12,545

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of Ronyx Corporation Limited:

We have examined the consolidated balance sheet of Ronyx Corporation Limited as at September 30, 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. For Ronyx Corporation Limited and for those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For other companies accounted for by the equity method, except for Arkton Corporation Limited for which audited financial statements are not available as explained in note 1(a), we have relied on the reports of the auditors who have examined their financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1974 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants.

Hamilton, Canada,
November 18, 1974.

RONYX corporation limited

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED SEPTEMBER 30, 1974 (with comparative figures for 1973) (in thousands of dollars)

	1974			1973
	Manufacturing	Real estate	Total	Total
Sales	$ 13,864	$ 9,192	$ 23,056	$ 14,940
Income from operations before the following—	$ 735	$ 462	$ 1,197	$ 125
Accelerated amortization of deferred charges (note 1(c))	205	—	205	—
Preproduction and development costs of deHavilland C7 project (net)	100	—	100	—
Income taxes	180	226	406	28
Income before income (loss) of affiliated companies	250	236	486	97
Income from operations of affiliated real estate companies	—	16	16	153
Provision for loss on investment in affiliated manufacturing company	(66)	—	(66)	(25)
Net income for the year	$ 184	$ 252	436	225
Retained earnings at beginning of year			2,068	1,859
			2,504	2,084
Deduct dividends paid on cumulative preference shares				16
Retained earnings at end of year			$ 2,504	$ 2,068
Earnings per common share (after deducting dividend requirements on preference shares in 1973)	$ .07	$ .10	$ .17	$ .09

See accompanying notes to consolidated financial statements.

RONYX corporation limite

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED SEPTEMBER 30, 1974 (with comparative figures for 1973) (in thousands of dollars)

	1974	1973
SOURCE OF FUNDS:		
Operations—		
Net income for year	$ 436	$ 225
Depreciation	225	196
Amortization of deferred charges	816	297
Deferred income taxes	(58)	28
Funds from operations	1,419	746
Increase in long term debt	—	137
Decrease in mortgage receivable	113	—
Deferred income on land sale	181	—
Increase in deferred income taxes	—	299
	1,713	1,182
APPLICATION OF FUNDS:		
New facilities and equipment (net)	266	239
Deferred charges	517	250
Increase in investments in affiliated companies	635	151
Dividends paid	—	16
Increase in mortgage receivable	—	113
Decrease in long term debt	511	—
	1,929	769
INCREASE (DECREASE) IN WORKING CAPITAL	(216)	413
WORKING CAPITAL BEGINNING OF YEAR	4,232	3,819
WORKING CAPITAL END OF YEAR	$ 4,016	$ 4,232

	1974	1973
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets—		
Cash and short term deposits	$ (202)	$ (204)
Accounts receivable	1,141	(257)
Due from affiliated companies	311	22
Inventories	2,353	1,714
Mortgage receivable	113	—
Prepaid expenses and other current assets	(66)	50
	3,650	1,325
Increase (decrease) in current liabilities—		
Bank indebtedness	2,119	448
Accounts payable and accrued charges	953	(331)
Income and other taxes payable	203	—
Mortgages payable	277	949
Demand notes payable to affiliated company	(200)	—
Current instalments on long term debt	277	142
Deferred income taxes relating to current assets	237	(296)
	3,866	912
INCREASE (DECREASE) IN WORKING CAPITAL	$ (216)	$ 413

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1974

(1) **Accounting policies —**

(a) The consolidated financial statements as at September 30, 1974 include the accounts of the company's wholly-owned subsidiaries, Grisenthwaite Construction Company Limited and W. Grisenthwaite Developments Limited. The investments in affiliated companies which are owned to the extent of 50% are not consolidated but are included in the financial statements on the equity basis.
During the year Ronyx Corporation Limited entered into a joint venture arrangement with Sifton Properties Limited of London, Ontario, each owning 50% of Arkton Corporation Limited, which company purchased a condominium project in North Palm Beach, Florida. Since this company's first fiscal period will end on December 31, 1974, audited financial statements are not available. While long range projections indicate the venture will be profitable, it is not practicable to assess the realizable value of Ronyx's investment in the joint venture at September 30, 1974. Accordingly, Ronyx's investment in Arkton is carried at cost, comprised of an advance of $523,000 and common share subscription of $2,000, which according to unaudited financial statements of the company, also represent equity value.

(b) Gross profit on contracts is recorded as follows:
(i) On contracts extending beyond one year billable at a fixed price per unit, the proportion of total estimated gross profit for the entire contract applicable to the number of units shipped;
(ii) On other contracts billable at a fixed price per unit, the actual gross profit applicable to units shipped.
(iii) On other manufacturing contracts and on residential construction contracts, the percentage of completion method.
Where it is expected that a loss will be incurred on completion, provision is made for the total estimated loss. In the case of contracts extending beyond one year, revisions in cost and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known.

(c) In the case of the Lockheed TriStar program, financing, engineering and tooling costs, and in the case of the Boeing 707 program, financing costs have been deferred in the accounts and are being amortized by charges to income as units are shipped. The amortization rate for the TriStar program which will extend over several years is currently based on Lockheed's firm orders for 144 aircraft and options for a further 57 comprising 201 aircraft compared with the original program projection of 352 aircraft which was used in prior years. The acceleration of the amortization rate resulted in a charge against current year's income before taxes of $205,000 relating to units shipped in prior years. Fleet has delivered 114 shipsets. The amortization rate for the Boeing 707 is based on firm orders.
Engineering and tooling costs applicable to other programs are included in work in process to the extent recoverable.

(2) **Inventories —**

Inventories are valued at the lower of cost and net realizable value and consist of the following:

	1974	1973
	(in thousands of dollars)	
Manufacturing:		
Work in progress (after deducting progress payments of $829,000 in 1974 and $477,000 in 1973)	$ 3,039	$ 2,357
Raw materials and supplies	1,519	978
	4,558	3,335
Real estate group:		
Work in progress	2,765	1,305
Land for resale	751	1,081
	3,516	2,386
	$ 8,074	$ 5,721

(3) **Fixed assets —**

Fixed assets consist of the following:

	1974			1973
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Manufacturing division:		(in thousands of dollars)		
Land (approximately 152 acres in Fort Erie)	**$ 41**	**$ —**	**$ 41**	$ 41
Buildings	**1,483**	**723**	**760**	814
Machinery and equipment	**2,582**	**1,969**	**613**	522
	4.106	**2,692**	**1,414**	1,377
Real estate division:				
Furniture, fixtures, equipment and leasehold improvements	**224**	**136**	**88**	84
	$ 4,330	**$ 2,828**	**$ 1,502**	$ 1,461

Depreciation is computed as follows:

On diminishing balance -	Buildings	5% or 10%
	Machinery, furniture and equipment	20%
	Automobiles	30%
On straight-line basis -	Leasehold improvements	Term of lease

(4) **Bank indebtedness —**

Bank indebtedness includes a loan to the manufacturing division of $1,661,000 which is repayable on demand and is secured by a $3,000,000 debenture with a first floating charge on all company property and assets, pledge of book debts and inventory. The real estate division has a bank loan of $1,500,000, which is secured by a temporary deposit account of $577,000, assignment of book debts and life insurance, a first collateral mortgage on 10.2 acres valued at $969,000 and hypothecation of shares of certain affiliated companies.

(5) **Mortgages payable on land and housing units under construction —**

Mortgages and other amounts owing on land and housing units under construction consist of the following:

	1974	1973
	(in thousands of dollars)	
Mortgages on land	**$ 136**	$ 351
Mortgage advances on work in progress	**1,185**	733
Customer deposits on housing units	**48**	8
	$ 1,369	$ 1,092

(6) **Long term debt —**

The long term debt of the manufacturing division consists of the following:

	1974	1973
	(in thousands of dollars)	
Capitalized lease agreement with Citicorp Leasing International Inc. for generating equipment, due September 30, 1978	$ 59	$ 73
Repayable portion of non-interest bearing federal government assistance payments for purchase of machine tools—due October 2, 1974	—	113
—due January 30, 1979	45	—
8¼% mortgage debenture payable to Ontario Development Corporation for additions to manufacturing plant secured by specific mortgage on the land and buildings, due July 15, 1980	203	230
Term bank loan for the financing of the Lockheed TriStar program, due June 30, 1982, secured by a $3,000,000 debenture with a second floating charge on all company property and assets and a second pledge of accounts receivable and inventories	2,875	3,000
	3,182	3,416
Less principal repayments due within one year	553	276
	$ 2,629	$ 3,140

The remaining long term debt requirements payable for the fiscal years 1975 to 1979 are as follows: 1975—$553,000; 1976—$555,000; 1977—$558,000; 1978—$498,000; 1979—$295,000.

(7) **Contingent liabilities —**

In prior years the cost of certain fixed asset additions was reduced by the proceeds of a forgiveable loan from the Ontario Development Corporation in the amount of $218,000. The loan, of which $65,000 has been forgiven at September 30, 1974, is secured by the same mortgage as the 8¼% mortgage debenture (note 6). The remainder of $153,000 is forgiveable over three years providing the company continues its present operations.

The company is contingently liable under guarantees and other commitments in the amount of $5,100,000.

(8) **Retirement plans —**

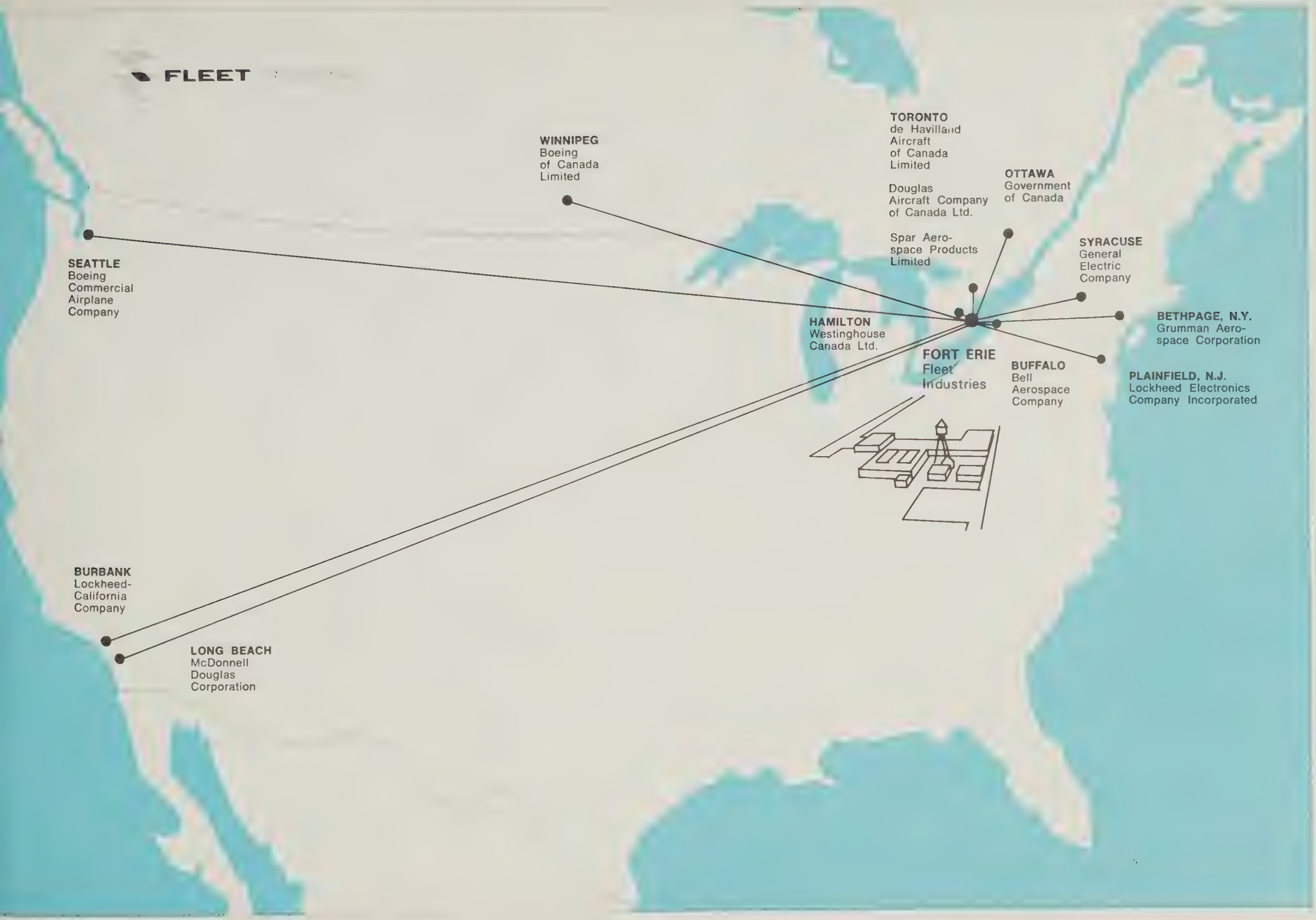
At the year end the company revised the pension plans for the employees of the manufacturing division providing increased past service benefits as a result of a new labour contract. The total unamortized past service costs under retirement plans of the company at September 30, 1974, based on estimates by independent actuaries, amounted to $2,475,000. These costs, which are not included in the accompanying financial statements, are being amortized and charged to operations over the period to 1989.

(9) **Statutory information —**

The aggregate direct remuneration paid or payable by the company and its consolidated subsidiaries to the directors and senior officers of the company as defined by The Business Corporations Act of Ontario amounted to $280,000 in fiscal 1974.

Interest paid during the year on long term debt amounted to $355,000 and and other debt amounted to $223,000, of which $412,000 was added to deferred charges (note 1(c)). The interest element of deferred charges amortized against the current year's income is $585,000.

Depreciation deducted in arriving at income from operations amounted to $225,000.



FLEET
TORONTO
de Havilland
Aircraft
of Canada
Limited
Douglas
Aircraft Company
of Canada Ltd.
Spar Aero-
space Products
Limited
WINNIPEG
Boeing
of Canada
Limited
OTTAWA
Government
of Canada
SYRACUSE
General
Electric
Company
SEATTLE
Boeing
Commercial
Airplane
Company
HAMILTON
Westinghouse
Canada Ltd.
BETHPAGE, N.Y.
Grumman Aero-
space Corporation
FORT ERIE
Fleet
Industries
BUFFALO
Bell
Aerospace
Company
PLAINFIELD, N.J.
Lockheed Electronics
Company Incorporated
BURBANK
Lockheed-
California
Company
LONG BEACH
McDonnell
Douglas
Corporation

RONYX corporation limited

divisions

FLEET industries—trans[illegible]

RONARK deve[illegible]

INTERIM REPORT

March 29, 1974

RONYX corporation limited

divisions

FLEET industries

RONARK developments

affiliate

SANDTRON electronic industries limited

RONYX Corporation Limited

CONSOLIDATED STATEMENT OF NET EARNINGS

(unaudited) (in thousands of dollars)

	Six Months ended March 31 1974			1973
	Manufacturing	Real Estate	Total	Total
Sales	$ 6,253	$ 2,892	$ 9,145	$ 7,367
Earnings (loss) from operations before income taxes	506	135	641	(46)
Income Taxes	213	68	281	(19)
Earnings (loss) before earnings of affiliated companies	293	67	360	(27)
Earnings from operations of affiliated companies		3	3	93
Earnings before the following	293	70	363	66
Accelerated amortization of deferred charges less income taxes (68)	92		92	
Net earnings for six months	$ 201	$ 70	$ 271	$ 66
Net earnings per common share			$ 0.11	$ 0.03

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(unaudited) (in thousands of dollars)

	Six Months ended March 31 1974	1973
SOURCE OF FUNDS:		
Operations—		
Net earnings for six months	$ 271	$ 66
Depreciation	102	93
Amortization of deferred charges	185	148
Accelerated amortization of deferred charges	160	
Funds from operations	718	307
Decrease in investments in affiliated companies	318	
	1,036	307
APPLICATION OF FUNDS:		
New facilities and equipment (net)	179	38
Deferred charges	141	111
Increase in investments in affiliated companies		116
Dividends paid on preference shares		16
Decrease in long term debt	239	73
Increase in mortgages receivable	349	
Decrease in deferred income taxes	68	
	976	354
INCREASE (DECREASE) IN WORKING CAPITAL	60	(47)
WORKING CAPITAL AT BEGINNING OF YEAR	4,232	3,819
WORKING CAPITAL AT END OF YEAR	$ 4,292	$ 3,772
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increases (decreases) in current assets:		
Cash	$ (245)	$ (134)
Accounts receivable	(589)	(395)
Due from affiliated companies	369	(15)
Inventories	2,289	(256)
Prepaid expenses and other current assets	(17)	22
	1,807	(778)
Increase (decrease) in current liabilities:		
Bank indebtedness	1,508	(154)
Accounts payable and accrued charges	497	(580)
Mortgages payable	(376)	25
Demand notes payable to affiliated company	(300)	
Current instalments on long term debt	203	1
Deferred income taxes relating to current assets	215	(23)
	1,747	(731)
INCREASE (DECREASE) IN WORKING CAPITAL	$ 60	$ (47)

TO THE SHAREHOLDERS:

Consolidated sales for the first half were $9,145,000 compared with $7,367,000 for the corresponding period of the previous year and, after providing for accelerated amortization of deferred charges, net income after taxes was $271,000 compared to $66,000.

MANUFACTURING DIVISION—FLEET INDUSTRIES

There was an overall improvement in the results of the manufacturing division with sales for the current half year at $6,253,000 which was $2,508,000 over the first half of the previous year. Similarly, net earnings at $201,000 compared with a net loss of $55,000.

The preproduction costs on the Lockheed L-1011 TriStar program, treated as deferred charges in the accounts, are being consistently amortized as units are shipped based on Lockheed's projection of 352 aircraft sales, for which approximately 135 firm orders have been received with options for an additional 70. Ronyx has decided to accelerate the amortization rate as a matter of prudent policy in the possible event that 352 aircraft are not sold. Accordingly, for the first half year, deferred charges have been reduced further by $160,000 which, after reflecting income tax reductions of $68,000, has been charged to the earnings statement. If the policy of accelerated depreciation is continued through the remainder of this fiscal year, the deferred charges will be effectively amortized over 268 units.

The increasing volume of activity, which was mentioned in the 1973 annual report, has continued and average employment for the first half was 688 compared with an average of 458 for the last fiscal year. As of this date, employment stands at 733. The increase is mainly attributable to increased production rates on the de Havilland C6 Twin Otter and the McDonnell Douglas DC9, the new order from Lockheed Electronics for the hardware portion of the U.S. Navy shipboard fire control system and the start of component fabrication for the Boeing 707 fin and rudder. The first 15 sets of the Boeing order were basically assembly operations.

The order backlog stands at $22,400,000 with future options of $19,500,000 not yet booked. Orders booked in the first half amounted to $6,900,000. Apart from orders for repeat business, a new contract was placed by Boeing of Canada for wing to body fairings on the new 747 SP.

The inflation level and the volatile market conditions affecting raw material prices, bank interest and foreign exchange rates on existing firm fixed price contracts have begun to have some adverse effect on earnings. However, it is expected that the results for the second half will be comparable to those reported for the first half.

REAL ESTATE DIVISION—RONARK DEVELOPMENTS

On sales of $2,892,000 compared with $3,622,000 fo the first half of the previous year, net earnings wer $70,000 compared to $121,000.

RONYX corporation limited

CONSOLIDATED STATEMENT OF NET EARNINGS

(unaudited) (in thousands of dollars)

	Six Months ended March 31 1974			1973
	Manufacturing	Real Estate	Total	Total
Sales	$ 6,253	$ 2,892	$ 9,145	$ 7,367
Earnings (loss) from operations before income taxes	506	135	641	(46)
Income Taxes	213	68	281	(19)
Earnings (loss) before earnings of affiliated companies	293	67	360	(27)
Earnings from operations of affiliated companies		3	3	93
Earnings before the following	293	70	363	66
Accelerated amortization of deferred charges less income taxes (68)	92		92	
Net earnings for six months	$ 201	$ 70	$ 271	$ 66
Net earnings per common share			$ 0.11	$ 0.03

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(unaudited) (in thousands of dollars)

	Six Months ended March 31 1974	1973
SOURCE OF FUNDS:		
Operations—		
Net earnings for six months	$ 271	$ 66
Depreciation	102	93
Amortization of deferred charges	185	148
Accelerated amortization of deferred charges	160	
Funds from operations	718	307
Decrease in investments in affiliated companies	318	
	1,036	307
APPLICATION OF FUNDS:		
New facilities and equipment (net)	179	38
Deferred charges	141	111
Increase in investments in affiliated companies		116
Dividends paid on preference shares		16
Decrease in long term debt	239	73
Increase in mortgages receivable	349	
Decrease in deferred income taxes	68	
	976	354
INCREASE (DECREASE) IN WORKING CAPITAL	60	(47)
WORKING CAPITAL AT BEGINNING OF YEAR	4,232	3,819
WORKING CAPITAL AT END OF YEAR	$ 4,292	$ 3,772
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increases (decreases) in current assets:		
Cash	$ (245)	$ (134)
Accounts receivable	(589)	(395)
Due from affiliated companies	369	(15)
Inventories	2,289	(256)
Prepaid expenses and other current assets	(17)	22
	1,807	(778)
Increase (decrease) in current liabilities:		
Bank indebtedness	1,508	(154)
Accounts payable and accrued charges	497	(580)
Mortgages payable	(376)	25
Demand notes payable to affiliated company	(300)	
Current instalments on long term debt	203	1
Deferred income taxes relating to current assets	215	(23)
	1,747	(731)
INCREASE (DECREASE) IN WORKING CAPITAL	$ 60	$ (47)

TO THE SHAREHOLDERS:

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REAL ESTATE DIVISION—RONARK DEVELOPMENTS

On sales of $2,892,000 compared with $3,622,000 for the first half of the previous year, net earnings were $70,000 compared to $121,000.

Projects currently under way are on target as to timing and budget. These include 214 townhouses in London in two locations, 188 single family homes in Stoney Creek, Chatham, Woodstock and Wallaceburg, 37 townhouses in Kitchener being built under our joint venture agreement with Major Holdings and Developments Limited, a 91 unit senior citizens' apartment building in Sarnia for Ontario Housing Corporation and an 82 unit townhouse condominium project in St. Catharines.

The total value of the uncompleted portion of development under construction at the end of the six month period and the work to be started before the fiscal year end is approximately $20,000,000. This figure breaks down as follows:

Contract housing	41%
Condominium townhouses for sale	39%
Single family houses for sale	11%
Rental accommodation	9%

Development work is proceeding on our previously announced joint ventures with Calvert-Dale Estates Limited in Brampton (86 acres), Ellis Don Limited in London (58.1 acres) and the Fraleigh interests in London (135 acres).

Arkton Corporation Limited, a company in which Ronark and Sifton Properties Limited of London, Ontario each owns 50% of the issued shares, has purchased a condominium project in North Palm Beach, Florida, known as "Twelve Oaks." The site, containing 23 acres of land fronting on Lake Worth, is heavily treed and zoned for 351 low rise units. Services are installed and construction is under way on three buildings containing 54 units with a substantial number of sales already made. This project is scheduled for completion over a three year period with potential sales of $25,000,000 and it is the intention of the shareholders that it will constitute the basis for a continuing Florida operation.

Ronark has been accumulating, through direct purchase and joint ventures, a substantial land bank. While the usual zoning and servicing delays have been encountered, indications are that the second half of the year will be significantly larger in sales and net income, which should make the year one of the best in our recent history.

AFFILIATE—SANDTRON ELECTRONIC INDUSTRIES LIMITED

This small but growing company specializing in the marketing and manufacture of industrial process controls is now entering its second year since Ronyx Corporation Limited acquired a 50% interest in the business. There is increasing interest in our technology and a continuing improvement in sales. It is anticipated that overall results will be more encouraging this year.

R. K. Fraser,
President.

May 21, 1974